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KEDI ECONOMIC SURVEY

March 1, 1987

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CONTENTS

Page

0.00 Introduction

0.01 Executive Summary 1
0.02 Assumptions 2
0.03 Forecast Highlights 2

1.00 Detailed Forecasts

1.10 Real Growth, Consumer Spending and Retail Sales 4
1.20 Prices and Nominal GNP
1.21 Prices 10
1.22 Nominal GNP 12
1.30 Employment and Labor 14
1.40 Housing and Automobiles
1.41 Housing 16
1.42 Automobiles 18
1.50 Budgets 20
1.60 Income 22
1.70 Money and Credit 24
1.80 Interest Rates, Yields, and Securities Prices 26

2.00 Comparison of Accuracy of Predictions 28

3.00 Historical Data Sources 29

TABLES

0.00 KEDI Forecast Highlights 3
1.11 Selected Indicators of Real Growth 5
1.12 Consumer Spending and Retail Sales 7
1.13 Real GNP 9
1.21 Prices 11
1.22 Nominal GNP 13
1.30 Employment and Labor 15
1.41 Housing 17
1.42 Automobiles 19
1.50 Budgets 21
1.60 Income 23
1.70 Money and Credit 25
1.80 Interest Rates, Yields, and Security Prices 27
3.00 Historical Data Sources 29

SOURCES:

U.S.Department of Commerce second estimates of 1986:4 National Income and Product data, February 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, February 1987.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Department of Commerce second estimate of GNP for fourth quarter 1986 shows a bit slower growth than previously announced.

Prices

Indications apopear that business inflation is growing faster than anticipated while consumer inflation will remain low.

Employment & Labor

Look for an improvement in the second half in employment figures as the impact of lowered value of the dollar takes effect.

Housing

The number of housing starts this year will decline compared to 1986, mainly in the apartment building segment.

Automobiles

1987 domestic car sales will decline compared to 1986 while imported car sales will remain at last year's level.

Budgets

Congress is starting to act again like it did with the destrutive legislation of the 1970s.

Income

Corporate after-tax profit will increase 11% in 1987 over 1986. Gains from the lower value of the dollar will benefit some.

Money & Credit

At the February meeting of the Open Market Committee, the targets of monetary growth of M1 were abandoned--FINALLY!

Interest Rates, Yields & Securities Prices

Average rates on credit cards have dropped from 18% in December 1986 to the present rate of 15-16%. Expect 12% by midyear.

O.02 ASSUMPTIONS

		Last Update
1.	In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1988.	October 1986
3.	In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4.	Foreign trade with China will expand in 1987 and following years.	May 1986
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%.	August 1986
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

O.03 FORECAST HIGHLIGHTS

* Table O.00 on page 3 shows forecast data of selected indicators of the March 1987 KEDI forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1989-1990.

* Forecast data for 1987-1990 do not point to recession or major downturn.

* In 1987 interest rates will further decline and will remain at low levels throughout the year. Some slight increases are anticipated in 1988.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1986 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

Indicator	Unit	1985	1989	1990	1991
Gross national	bil. 82$	3585.2	3997.1	4093.0	4191.2
product, p. 5	% change	2.5	3.1	2.4	2.4
Index of indust.	1977=100	123.8	138.2	142.5	147.3
prod., p. 5	% change	1.1	3.3	3.1	3.4
Capacity	%	80.4	81.0	80.2	79.4
utiliz., p. 5	% change	-1.0	.1	-1.0	-.9
Unemployment	%	7.2	6.6	6.5	6.6
rate, p. 5	% change	-3.1	-1.1	1.1	.8
Private housing	mil.units	1.7	1.9	1.8	1.9
starts, p. 5	% change	4.9	— 4.2	-2.4	3.3
Car sales,	mil.units	11.0	11.2	11.2	11.6
p. 5	% change	3.2	2.7	-.8	4.0
Implicit GNP	1982=100	111.5	126.6	131.1	136.5
price def.,p.11	% change	2.6	3.3	3.6	4.1
Consumer Price	1967=100	322.2	358.4	370.9	384.3
Index, p. 11	% change	1.9	3.3	3.5	3.6
Prod.Price Index	1967=100	293.7	329.0	343.8	355.5
(fin.goods),p.11	% change	-1.6	4.1	4.5	3.4
Federal Deficit	bil. $	-200.1	-133.8	-107.2	-70.5
p. 21	% change	15.1	-14.1	-19.9	-34.2
Personal Income	bil. $	3314.5	4176.9	4469.3	4800.0
p. 23	% change	5.1	6.8	7.0	7.4
Prime Rate	%	9.4	8.1	8.9	9.6
p. 27	% change	-11.6	6.2	9.1	8.6
Mortgage Rate	%	11.1	9.1	8.9	9.1
p. 27	% change	-11.2	3.3	-2.1	2.0
Currency+demand	bil. $	593.6	844.6	902.0	958.8
deposits , p. 25	% change	13.2	7.3	6.8	6.3
Commercial+ind.	bil. $	493.9	581.8	598.7	611.3
loans, p. 25	% change	5.3	3.0	2.9	2.1
Raw steel	mil.sh.tons	88.1	89.3	90.8	91.3
production	% change	-4.8	.3	.9	.4
Electric power	mil.kw-hr	2576	3215	3330.7	3487.3
production	% change	6.5	3.9	3.6	4.7
Bituminous coal	mil.sh.tons	873	930	973.3	984.1
production	% change	-.1	1.4	1.3	1.5
Crude oil	avg. daily bbl.	3279	2325	2371.7	2423.9
output	% change	.9	1.9	2.0	2.2
Retail sales	bil. $	1377.7	1765.5	1876.7	1989.3
p. 7	% change	6.2	6.1	6.3	6.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH

See Table 1.11
Page 5

1987 FORECAST DATA

Percent Change from February 1987 Forecast	
+ .26%	Private Housing Starts
0.00%	Capacity Util.
- .01%	GNP
- .10%	Index Indus. Prod.
- .72%	Unemp-ploy-ment
- .95%	Autos

JANUARY AND FEBRUARY DATA POINT TO MODERATE GROWTH GETTING THE YEAR OFF TO A GOOD START.

* Index of Industrial Production up in January by a healthy .4%. Indications are that February will be the fifth straight month of continuous growth.

* Production of oil and gas extraction segment of the IIP went up by .2%. This is seen as the end of the downturn for that segment.

* Production of business equipment up.

* Strong retail sales in February show that consumer confidence remains.

* Capacity utilization in some export industries is increasing, notably in paper, plastics, and many nondurable industries.

* Awards for roads maintenance and repairs have increased significantly in January and February.

* Trouble spots remain, however, and are slowing down the rate of growth in most of durable manufacturing, construction of non-residential component and apartments, mining, except coal mining. Neither of the segments will improve this year.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem-ploy ment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1985*	3585.2	123.8	7.21	80.4	1.742	11.0
1986:1*	3655.9	125.0	7.06	80.0	1.990	10.7
2*	3661.4	124.4	7.16	79.6	1.905	10.7
3*	3686.4	125.1	6.90	79.7	1.744	13.2
4	3698.3	125.9	6.83	79.6	1.672	10.8
YEAR	3675.5	125.1	6.99	79.6	1.828	11.3
% change from '85	2.5	1.1	-3.1	-1.0	4.9	3.2
1987:1	3724.1	126.4	6.72	79.8	1.569	10.2
2	3756.0	127.6	6.75	79.7	1.713	10.4
3	3788.2	128.7	6.73	79.7	1.815	11.0
4	3825.9	131.6	6.70	80.0	1.721	10.0
YEAR	3773.6	128.6	6.72	79.8	1.704	10.4
% change from '86	2.7	2.8	-3.8	.3	-6.7	-8.4
1988:1	3735.2	132.0	6.70	80.2	1.657	10.3
2	3860.4	133.0	6.67	80.4	1.769	10.8
3	3891.3	134.3	6.63	81.3	1.968	11.5
4	4020.7	135.8	6.51	81.7	1.812	11.2
YEAR	3876.9	133.8	6.63	80.9	1.786	10.9
% change from '87	2.7	4.0	-1.4	1.4	4.8	5.3

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987 FORECAST DATA

Percent Change from February 1987 Forecast

+ .35%	Retail Sales Nondurable
+ .18%	Pers. Con. Exp. Services
+ .23%	Retail Sales Total
+ .03%	Retail Sales Durable
- 1.08%	Pers. Con. Exp. Nondurable
- 5.29%	Pers. Con. Exp. Durable

CONSUMERS WILL SHIFT FROM BIG TICKET ITEMS TO GENERAL STORE MERCHANDISE. STRONG SALES FORECAST FOR FOOD STORES.

January reports on weak retail sales are misleading due to low car sales. Adjusted for car sales, the rest of the data shows that consumers did not cut back on spending. Consumer purchases of nondurables will go up by 5.5-6.0% and will accelerate to 6-6.5% in the second half.

* Good sales forecast for general store merchandise and small items.

* Soft sales are seen for home furnishings and speciality stores.

* Weak sales are forecast for home electronics, big-ticket furniture and appliances, and, of course, cars.

March retail sales will be lower that March 1986 since Easter comes in April this year rather than in March.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*--Personal Cons. Expend.- Durables	Nondur-ables	Services	**------Retail Sales------* Total	Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1985*	359.3	905.1	1336.1	1377.7	511.6	866.2
1986:1*	360.8	929.7	1415.5	1410.8	526.4	884.4
2*	373.9	928.4	1428.1	1445.6	532.1	913.5
3*	414.5	932.8	1452.4	1470.2	559.4	910.8
4	404.3	939.7	1478.5	1493.8	558.3	935.5
YEAR	388.4	932.6	1443.6	1455.1	544.0	911.0
% change from '85	8.1	3.0	8.0	5.6	6.3	5.2
1987:1	402.1	946.1	1522.3	1504.9	560.4	944.5
2	404.3	956.2	1536.0	1454.7	557.8	896.9
3	411.2	970.4	1556.4	1580.3	582.0	998.3
4	414.1	983.2	1591.0	1609.7	591.4	1018.3
YEAR	407.9	964.0	1551.4	1537.4	572.9	964.5
% change from '86	5.0	3.4	7.5	5.7	5.3	5.9
1988:1	416.8	1005.3	1489.0	1656.3	610.3	1046.0
2	422.3	1011.2	1645.1	1640.2	618.5	1021.7
3	445.9	1026.7	1641.6	1666.1	628.2	1037.9
4	462.8	1042.8	1793.5	1693.3	635.4	1057.9
YEAR	436.9	1021.5	1642.3	1664.0	623.1	1040.9
% change from '87	7.1	6.0	5.9	8.2	8.8	7.9

1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

Percent Change from February 1987 Forecast	
+ .08%	Gross Private Dom. Inv.
+ .03%	State Local Purch.
- .01%	Federal Govt. Purch.
- .01%	GNP
- .05%	Pers. Cons. Expend.
- .16%	Net Exports

DEPARTMENT OF COMMERCE SECOND ESTIMATE OF GNP FOR FOURTH QUARTER 1986 SHOWS A BIT SLOWER GROWTH THAN PREVIOUSLY ANNOUNCED IN THE FIRST ESTIMATE OF JANUARY 20.

Compared to the First (January 20) estimate, the new estimate shows:

* More personal consumption expenditures
* Less government spending
* Smaller export-import deficit
* Decrease in gross private domestic investment and a larger decline in inventories than previously announced.

The new data is more encouraging with more consumer spending and less government spending, as well as a lower trade deficit. Another good sign is the decline in business inventories. They are at very low levels now and cannot go down further--so the only direction is upward in months to come. This means that businesses will start to restock soon. That will push the GNP and the rate of growth up faster.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1985*	3585.2	2324.5	647.7	-108.2	323.6	397.6
1986:1*	3655.9	2372.6	684.0	-125.9	320.4	404.8
2*	3661.4	2408.4	664.7	-153.9	328.9	413.3
3*	3686.4	2448.0	651.3	-16[illegible].3	330.9	419.5
4	3698.3	2447.4	631.7	-1[illegible].0	350.6	419.7
YEAR	3675.5	2419.1	657.9	-151.0	332.7	414.3
% change from '85	2.5	4.1	1.6	39.6	2.8	4.2
1987:1	3742.3	2492.4	640.2	-151.2	339.0	421.9
2	3756.2	2485.4	646.6	-148.0	343.6	428.6
3	3788.5	2491.8	657.8	-140.3	345.5	433.7
4	3826.8	2508.7	668.0	-138.0	349.4	438.7
YEAR	3773.6	2489.7	653.1	-144.4	344.4	430.7
% change from '86	2.7	2.9	-.7	-4.4	3.5	4.0
1988:1	3833.4	2430.0	671.1	-135.2	351.3	442.8
2	3857.7	2515.8	673.6	-131.3	353.7	445.9
3	3886.2	2536.7	675.5	-129.8	355.4	448.4
4	4012.5	2647.8	679.7	-127.1	358.9	453.2
YEAR	3876.9	2535.1	675.0	-130.8	350.1	447.6
% change from '87	2.7	1.8	3.3	-9.4	1.7	3.9

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1987 FORECAST DATA

Percent Change from February 1987 Forecast

0.00%	Consumer Price Index
- .03%	Producer Price Index
- .04%	Federal Govt. Purch.
- .04%	State Local Purch.
- .13%	GNP
- .20%	Pers. Cons. Expend.

INDICATIONS APPEAR THAT BUSINESS INFLATION IS GROWING FASTER THAN ANTICIPATED WHILE CONSUMER INFLATION WILL REMAIN LOW.

* Recent survey of Purchasing Managers (Feb. 1987) has shown that 9 times more purchasing agents reported price increases than declines. The survey is conducted monthly by the National Association of Purchasing Managers.

* Prices of some products are starting to go up, mainly paper and paper products, forest products, especially lumber, and chemicals. Look for the prices to go up for plastics, rubber non-tire products, textiles, leather products, and kindred products and some food.

* Oil prices are definitely on the rise and will push energy prices upward.

* Prices of imported materials and consumer goods will continue increasing due to the weakness of the dollar which will mainly effect prices of imported crude materials.

Factors that will help to slow up inflation are:

* Too much unused capacity
* Relatively high unemployment
* Modest wage increases in labor contracts
* Worldwide excess production of materials

THERE IS NOT ENOUGH STEAM TO PUSH PRICES UPWARD--LOOK FOR MODEST INFLATION FOR BOTH BUSINESS AND CONSUMERS.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1985*	322.2	293.7	111.5	111.5	109.4	116.0
1986:1*	327.3	290.8	113.5	113.5	111.0	118.8
2*	326.5	288.5	114.0	114.1	111.8	119.4
3*	328.9	287.9	115.0	115.1	111.6	120.3
4	330.9	288.4	115.2	115.3	106.7	122.1
YEAR	328.4	288.9	114.4	114.2	110.3	120.2
% change from '85	1.9	-1.6	2.6	2.4	.8	3.6
1987:1	333.0	292.6	116.4	115.1	112.8	122.3
2	335.5	297.4	117.2	116.5	114.0	124.4
3	337.7	302.3	118.1	117.9	115.2	125.5
4	340.2	306.2	119.3	119.1	117.0	127.6
YEAR	336.6	299.6	117.8	117.2	114.8	125.0
% change from '86	2.5	3.7	2.9	2.6	4.1	4.0
1988:1	343.4	317.9	120.8	119.8	118.0	128.6
2	347.2	311.8	122.1	122.4	119.4	130.1
3	347.3	316.0	122.8	122.8	120.6	132.1
4	349.8	318.4	124.4	124.6	122.4	133.7
YEAR	346.9	316.0	122.5	122.4	120.1	131.1
% change from '87	3.1	5.5	4.1	4.4	4.7	4.9

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1987 FORECAST DATA

Percent Change from February 1987 Forecast

+	.12%	Net Exports
-	.01%	State Local Purch.
-	.02%	Gross Private Dom. Inv.
-	.04%	Federal Govt. Purch.
-	.1%	GNP
-	.20%	Pers. Cons.te Expend.

COMPARED TO THE JANUARY ESTIMATE OF THE 1986:4 NOMINAL GNP, THE NEW FEBRUARY ESTIMATE LOOKS BETTER.

The new estimates from the Department of Commerce show the trade gap narrowing somewhat, and the federal government spending less.

Two main imbalances persist among components of GNP: the foreign trade gap and low spending of businesses on plants and equipment.

Forecast data does not show a significant reduction in the nominal net exports gap until 1988.

The outlook on business capital spending is also cloudy. Forecast for 1987 calls for some improvement in the second half of this year. In 1988, the outlook shows, again, no significant improvement. Do not expect marked improvement before 1990 and the following years.

Business Capital Spending
% increases over previous year
Nominal values

1987	+1.2
1988	+1.8
1989	+1.7
1990	+2.7

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	3998.1	2619.1	661.1	-78.9	354.1	461.3
1986:1*	4156.8	2706.0	708.3	-93.7	355.6	480.5
2*	4174.0	2730.3	687.3	-104.5	367.7	493.1
3*	4240.7	2799.8	675.8	-108.9	369.3	504.7
4	4260.6	2812.5	665.3	-113.6	374.0	512.5
YEAR	4205.7	2760.3	684.2	-105.2	366.6	497.7
% change from '85	5.2	5.4	3.5	33.3	3.5	7.9
1987:1	4334.9	2869.2	678.1	-110.8	382.4	516.0
2	4402.0	2896.5	687.0	-106.4	391.7	533.2
3	4473.9	2938.0	695.7	-102.1	398.0	544.3
4	4564.3	2988.3	703.0	-95.6	408.8	559.8
YEAR	4443.8	2923.0	691.0	-103.7	395.2	538.3
% change from '86	5.7	5.9	1.0	-1.4	7.8	8.2
1988:1	4512.1	2911.1	708.2	-91.2	414.5	569.4
2	4713.5	3078.6	712.4	-79.9	422.3	580.1
3	4778.5	3114.2	720.2	-76.8	428.6	592.3
4	5001.8	3299.1	725.8	-68.4	439.3	605.9
YEAR	4750.2	3102.5	716.6	-79.1	426.2	587.0
% change from '87	6.9	6.1	3.7	-23.8	7.8	9.0

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987 FORECAST DATA

Percent Change from February 1987 Forecast

0.00%	Civilian Labor Force
0.00%	Agri-culture
- .02%	Total Employed
- .02%	Non-Agri.
- .09%	Popula-tion
- .66%	Unemploy-ment rate

LOOK FOR AN IMPROVEMENT IN THE SECOND HALF OF THIS YEAR IN EMPLOYMENT FIGURES AS THE IMPACT OF THE LOWERED VALUE OF THE DOLLAR TAKES EFFECT.

The unemployment rate will hover around 6.7% this year and will keep declining in years to come.

The improved employment rate will be felt by:

* Paper and products
* Organic chemicals
* Plastics
* Lumber and products
* Oil and gas extraction

Employment problems will persist in:

* Primary metals
* Nonresidential building
* Apartments
* Metalworking machinery
* Farm machinery and equipment

Look for higher than normal layoffs in the auto industry.

Employment in metallic ores mining will stabilize.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agri-cult.	Non-agric.	Unem-ployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1985*	241.7	115.4	107.2	3.2	103.9	7.21
1986:1*	244.5	117.0	108.7	3.2	105.5	7.06
2*	245.9	117.7	109.3	3.2	106.1	7.16
3*	247.3	118.2	110.2	3.2	104.1	6.90
4	249.8	118.7	110.6	3.1	107.5	6.83
YEAR	246.9	117.9	109.9	3.2	106.8	6.99
% change from '85	2.1	2.2	2.0	-.8	2.8	-3.09
1987:1	250.7	119.1	111.1	3.1	108.0	6.72
2	252.3	120.2	112.1	3.1	109.0	6.75
3	254.0	121.5	113.3	3.1	110.2	6.73
4	256.1	122.0	113.8	3.1	110.7	6.70
YEAR	253.3	120.7	112.6	3.1	109.5	6.72
% change from '86	2.6	2.4	2.5	-2.4	2.5	-3.76
1988:1	257.5	122.7	114.5	3.1	111.4	6.70
2	259.6	123.6	115.4	3.0	112.4	6.67
3	261.4	124.8	116.5	3.0	113.5	6.63
4	263.5	126.0	117.8	3.0	114.8	6.51
YEAR	260.5	124.3	116.0	3.1	112.9	6.63
% change from '87	2.9	3.0	3.0	0.0	3.2	-1.45

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

+	.65%	Single Family Housing Starts
+	.50%	1-Family unit price Existing
+	.27%	1-Family Unit price New
+	.21%	Multiple Family Housing Starts
+	.15%	Permits Issued
-	.09%	Mobile Home Shipments

THE NUMBER OF HOUSING STARTS THIS YEAR WILL DECLINE COMPARED TO 1986, MAINLY IN THE APARTMENT SEGMENT.

The pent-up demand for housing has largely been satisfied.

There will be a slowdown for next year or year and a half before recovery in the housing cycle starts in 1988.

Indications of a slowdown in housing starts are apparent.

The number of unsold homes has been increasing for four consecutive months.

Latest data for January show 6.3 months supply compared to the December 1986 figure of 5.9 months.

KEDI forecast takes into account the stimulative impact of low mortgage rates. Look for further drops in mortgage rates in the coming months.

Without expected declines in mortgage rates, the housing starts would decline even more this year.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home shipments	Permits authorized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1985*	1.072	.669	.283	1.735	101.0	90.3
1986:1*	1.257	.733	.274	1.839	103.4	91.8
2*	1.242	.663	.280	1.805	104.7	94.7
3*	1.142	.602	.278	1.678	106.2	96.7
4	1.131	.541	.274	1.591	110.5	97.9
YEAR	1.193	.635	.277	1.728	106.2	95.3
% change from '85	11.3	-5.1	-2.3	-.4	5.1	5.5
1987:1	1.052	.517	.254	1.521	110.6	99.5
2	1.121	.592	.280	1.676	111.9	100.4
3	1.179	.636	.271	1.719	112.9	101.1
4	1.105	.616	.262	1.734	115.0	103.8
YEAR	1.114	.590	.267	1.663	112.6	101.2
% change from '86	-6.6	-7.0	-3.5	-3.8	6.0	6.2
1988:1	1.032	.625	.263	1.626	115.7	105.4
2	1.121	.648	.276	1.730	118.3	107.1
3	1.245	.663	.298	1.845	120.2	108.3
4	1.168	.644	.297	1.821	123.1	109.2
YEAR	1.141	.645	.283	1.756	119.3	107.5
% change from '87	2.4	9.3	6.3	5.6	6.0	6.2

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1987 FORECAST DATA

Percent Change from February 1987 Forecast

+ 2.21%	Total Light Truck Sales
+ 1.97%	Shipments
.00%	Domestic Car Sales
.00%	Imported Car Sales
- .95%	Total Car Sales
- 5.56%	Dealer Inventory

1987 DOMESTIC CAR SALES WILL DECLINE COMPARED TO 1986 WHILE IMPORTED CAR SALES WILL REMAIN AT LAST YEARS LEVEL.

The market share of producers will change when compared to 1986.

Forecast of Market Shares in 1987 (% of US produced passenger cars)

GM	48.1
Ford	26.1
Chrysler	15.0
VW	.9
AM	.4
American Honda, Nissan, & Toyota	9.5

This shows a drop for GM from 55% in 1986.

VW and AM drop from 3% to 1.3%

Gains of US produced Japanese models will increase from 5.3% in 1986.

In January 1987, the seasonally adjusted sales rate was 5.9 million compared to 8 million in January 1986. February is expected to be at the 7.3 million level compared to 8 million in the same month last year.

LOOK FOR NEW SALES INCENTIVES!

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1985*	11.0	8.2	2.8	1.3	8.4	3.7
1986:1*	10.7	7.9	2.8	1.9	7.7	3.4
2*	10.7	7.7	3.0	1.8	8.3	3.5
3*	13.2	9.7	3.5	1.3	11.0	3.6
4	10.8	7.2	3.0	1.4	8.9	3.3
YEAR	11.3	8.1	3.1	1.4	9.0	3.5
% change from '85	3.2	-.9	9.8	7.7	6.8	-6.8
1987:1	10.2	7.3	2.9	1.7	7.7	3.3
2	10.4	7.4	3.0	1.8	7.6	3.5
3	11.0	7.7	3.3	1.7	7.9	3.6
4	10.0	6.8	3.2	1.7	7.8	3.5
YEAR	10.4	7.3	3.1	1.7	7.8	3.5
% change from '86	-8.4	-9.2	.8	21.4	-13.6	.7
1988:1	10.3	7.0	3.3	1.9	7.6	3.3
2	10.8	7.7	3.1	1.8	7.9	3.5
3	11.5	8.2	3.3	1.7	8.1	3.7
4	11.2	7.9	3.3	1.7	8.0	3.8
YEAR	10.9	7.7	3.2	1.7	7.9	3.6
% change from '87	5.3	.4	4.8	0.0	1.9	2.9

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

+ .41%	State Income Tax
+ .18%	Federal Surplus/ Deficit
- .09%	Federal Income Tax
- .25%	State Surplus/ Deficit
- .44%	Corp. Profit Tax Accrued
- 2.28%	State Local Corp. Tax Accrued

CONGRESS IS STARTING TO ACT AGAIN LIKE IT DID WITH THE DESTRUCTIVE LEGISLATION OF THE 1970s.

Congress is poised to open the dike of spending:

* Both the Senate and House overrode the President's veto to spend $20 billion through 1994 to clean up the nation's water. ($6 bil. more than the President recommended)

* The Senate passed the $65 billion highway and mass transit bill ($5 billion over the President's proposal).

If Congress continues to ignore the fact that PUBLIC NEEDS ARE UNLIMITED while TAXPAYERS' RESOURCES ARE NOT, it can only lead to higher taxation to support these mass public projects.

Federal spending slowed from a 15% growth in 1979 to an estimated three percent less in 1987. That is an excellent achievement.

KEDI's forecast of the Federal budget is based on the assumption that Congress does not go hog wild again. The target of the Federal Budget deficit for fiscal year 1988 (starting Oct. 1, 1987) is fully attainable.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------* Income taxes	Corp. profits tax accru.	Surplus /deficit	*---STATE AND LOCAL----* Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	350.8	67.7	-200.1	142.0	18.1	59.2
1986:1*	350.3	71.2	-201.6	147.2	17.5	70.0
2*	353.1	75.2	-238.1	151.7	18.1	59.0
3*	365.8	84.3	-197.4	153.1	20.1	64.0
4	376.1	85.4	-191.1	158.9	21.6	65.9
YEAR	361.3	79.0	-207.1	152.7	19.3	64.7
% change from '85	3.0	16.7	3.5	7.6	6.8	9.3
1987:1	388.6	86.8	-180.5	159.4	21.8	67.8
2	396.3	90.2	-177.3	162.7	22.0	69.0
3	400.1	93.0	-173.5	166.8	22.6	70.1
4	401.9	94.8	-170.8	168.2	23.5	73.6
YEAR	396.7	91.2	-175.5	164.3	22.5	70.1
% change from '86	9.8	15.4	-15.2	7.6	16.3	8.3
1988:1	408.9	97.0	-165.9	169.8	24.1	75.3
2	415.1	98.9	-161.2	171.9	25.2	77.2
3	419.4	102.8	-152.8	173.8	25.8	78.1
4	425.1	105.7	-143.1	177.0	26.1	79.2
YEAR	417.1	101.1	-155.8	173.1	25.3	77.5
% change from '87	5.1	10.9	-11.3	5.4	12.6	10.4

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1987 FORECAST DATA

Percent Change from February 1987 Forecast

- .02%	Comp. of Employees
- .16%	Corp. After Tax Profit
- .65%	Average Weekly Earnings
- 1.09%	Personal Income
- 1.30%	Personal Disp. Income
-29.68%	Personal Savings

CORPORATE AFTER TAX PROFIT WILL INCREASE 11% IN 1987 OVER 1986. GAINS FROM THE LOWER INTERNATIONAL VALUE OF THE DOLLAR ARE EXPECTED IN SOME INDUSTRIES.

Most forecasters are now predicting strong gains and KEDI maintains its forecast of 11% increase of after-tax profits in 1987 over 1986.

Significant gains from the lower international value of the dollar are expected mainly in chemicals, paper, and plastics. Increasing producer prices will also add up to the strength of corporate profits. Expect main impact of higher prices in textile, apparel, leather products, some segments of machinery, instruments, and non-tire rubber products.

PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME

The January data in PI and PDI is not indicative. Lower tax rates that have been effective since January 1st have not yet been transferred entirely into paychecks.

Forecast data show regular upward trends in personal income, personal disposable income and their components throughout the year.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1985*	3314.5	2828.0	2368.2	131.4	143.3	382.0
1986:1*	3444.3	2946.8	2461.5	135.2	145.6	391.2
2*	3489.3	2984.5	2486.9	138.0	153.1	393.9
3*	3498.8	2979.9	2507.4	135.9	84.1	393.7
4	3529.6	2994.6	2541.3	137.4	73.5	397.6
YEAR	3490.5	2976.4	2499.3	136.6	114.1	394.1
% change from '85	5.3	5.2	5.5	4.0	-20.4	3.2
1987:1	3608.1	3060.1	2570.2	142.5	86.5	398.9
2	3662.3	3103.3	2614.1	148.6	97.4	402.3
3	3715.0	3148.1	2669.1	156.0	99.6	409.6
4	3775.3	3205.2	2726.7	161.1	108.3	411.4
YEAR	3690.1	3129.1	2645.0	152.1	98.0	405.6
% change from '86	5.7	5.1	5.8	11.3	-14.1	2.9
1988:1	3708.6	3129.9	2770.1	163.5	112.4	414.5
2	3881.2	3294.2	2805.0	167.0	116.2	417.3
3	3932.7	3339.5	2876.1	172.3	120.7	420.2
4	4121.5	3519.4	2915.7	175.7	129.4	423.7
YEAR	3911.0	3320.7	2841.7	169.6	119.7	418.9
% change from '87	6.0	6.1	7.4	11.6	22.2	3.3

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

+	.80%	Currency & Demand Deposits
+	.16%	Large Denom. Time Deposits
+	.03%	Mortg. as S & L Assns.
-	.03%	Time Deposits
-	.31%	Comm. & Indust. Lonas at Banks
-	.51%	Consumer Install. Credit

AT THE FEBRUARY MEETING OF THE OPEN MARKET COMMITTEE, THE TARGETS OF MONETARY GROWTH OF M1 WERE ABANDONED--FINALLY!

KEDI has been emphasizing in this Survey that there is NO RELATIONSHIP in the current phase of the cycle between the growth of the economy and growth of money supply, M1. Also, there is no relationship between the rate of inflation and rate of growth of M1. In the past three years, M1 has been sky-rocketing while inflation declined. Growth of the economy was not disturbed by an unprecendented fast growth of M1.

Forecast data show that M1 will continue to grow at a fast pace. Accordingly, money supply M1 will continue growing for as long as the stock market keeps going up and the trade deficit remains large. These are the two main reasons for the fast growth of M1: supplying money to the stock market and financing the trade deficit.

No significant changes in forecasts of monetary and credit aggregates when compared to KEDI's last forecast.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	593.6	2484.0	535.1	493.9	436.5	583.2
1986:1*	629.8	2581.3	550.9	502.1	450.4	574.7
2*	657.8	2645.7	567.7	508.0	448.5	565.2
3*	685.0	2719.6	584.3	511.4	443.4	558.4
4	715.2	2773.2	597.5	517.1	440.6	568.4
YEAR	672.0	2679.9	597.5	51.1	440.6	568.4
% change from '85	13.2	7.9	11.7	5.3	.9	-2.5
1987:1	732.1	2853.5	598.3	526.7	440.0	568.9
2	743.3	2909.7	608.1	534.0	438.5	573.0
3	751.6	2980.1	618.3	536.8	437.2	577.0
4	758.3	3034.1	630.2	545.3	435.9	581.6
YEAR	746.3	2944.3	630.2	545.3	435.9	581.6
% change from '86	11.1	9.9	5.5	967.1	-1.1	2.3
1988:1	770.2	3109.2	641.4	549.1	447.0	596.1
2	782.4	3164.3	652.7	553.0	449.0	605.4
3	791.3	3246.8	662.6	557.7	453.0	619.3
4	804.6	3321.7	678.4	564.9	456.3	630.2
YEAR	787.1	3210.5	679.4	564.9	456.3	630.2
% change from '87	5.5	9.0	7.8	3.6	4.7	8.4

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987 FORECAST DATA

Percent Change from February 1987 Forecast

+ 2.11%	20 yr. Govt. Bonds Yield
+ 1.85%	Prime Rate
+ 1.70%	Conv. Mortg. Rate
+ 1.64%	Treas. Bills 3 mo. Yield
+ 1.22%	Aaa Corp. Bond Rate
+ .15%	S & P's 500 Avg.

AVERAGE RATES ON CREDIT CARDS HAVE DROPPED FROM 18% IN DECEMBER 1986 TO THE PRESENT RATE OF 15-16%. EXPECT FURTHER DECLINES TO 12% BY MIDYEAR, THEN LEVELING OFF.

In October 1986, KEDI labeled two main candidates for declines in rates: credit cards and mortgages. Both are declining and will continue to do so.

Conventional mortgage rates (30 yr.) at the end of February 1987 stood at 9.08%, down from January's 9.11%, and from 10.20% a year earlier. Expect further declines throughout this year.

Forecast of other interest rates remains essentially unchanges: slight further declines, leveling off in the second half of this year.

No downturns of stock and bond markets are predicted. Look for a strong performance with gradual increases through this year.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1985*	7.48	9.43	11.12	11.32	10.88	186.84
1986:1*	7.01	9.37	10.22	9.74	9.01	221.72
2*	6.14	8.61	9.82	9.00	7.67	242.16
3*	5.52	7.85	9.84	8.81	7.38	241.15
4	5.34	7.50	9.62	8.63	7.31	262.27
YEAR	6.00	8.33	9.88	9.04	7.84	241.82
% change from '85	-19.8	-11.6	-11.2	-20.1	-27.9	29.4
1987:1	5.35	7.50	9.51	8.57	6.94	273.49
2	5.26	7.46	9.14	8.38	6.83	284.16
3	5.18	7.38	8.96	8.19	6.55	293.02
4	5.27	7.40	8.88	8.14	6.27	295.71
YEAR	5.26	7.44	9.12	8.32	6.65	286.60
% change from '86	-12.3	-10.8	-7.6	-8.0	-15.2	18.5
1988:1	5.36	7.51	8.71	8.02	6.31	298.94
2	5.47	7.59	8.83	8.05	6.39	303.52
3	5.49	7.70	8.89	8.14	6.57	301.14
4	5.58	7.80	8.94	8.29	6.73	298.64
YEAR	5.47	7.65	8.84	8.12	6.50	300.56
% change from '87	4.0	2.9	-3.1	-2.3	-2.2	4.9

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of the Consumer Price Index are continued from the February issue of the KEDI Economic Survey, p. 28. The February issue contains forecast data of those forecasters who reported their expected levels of CPI in 1986. This issue contains forecast data of those forecasters who reported their expected percent changes of CPI in 1986 over 1985. The accuracy of forecasts is calculated here as a difference between the forecasted percentage and the actual percentage.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Consumer Price Index (1967=100, percent change, 1986 over 1985)
Actual figure: 1.9

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy percent difference
American Statistical Assn., and National Bureau of Economic Research, p. 43	12/85	3.6	1.7
UCLA Business Forecasting Project	12/85	3.6	1.7
U.S. Chamber of Commerce, p. 47	12/85	3.4	1.5
The Equitable Life Assurance Society of the U.S., p. 48	12/4/85	3.5	1.6
Mellon Bank, p. 52	1/86	2.9	1.0
Wharton Econometric Forecasting Associates, Inc., p. 54	1/86	3.1	1.2
The First National Bank of Chicago, p. 56	1/7/86	3.9	2.0
Citicorp Economic Services, p. 57	1/8/86	4.1	2.2
Standard & Poor°s Corp., p. 58	1/16/86	3.3	1.4
Data Resources, Inc., p. 60	1/22/86	3.2	1.3
Shearson Lehman Bros., Inc., p. 61	1/23/86	3.5	1.6
AmeriTrust Company, p. 63	1/27/86	3.9	2.0
KEDI, Inc.	2/1/87	2.9	1.0

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36